CHAPTER 1

INTRODUCTION

1.1. Research Background

A company have the aim of making progress. Therefore the company runs the business with the purpose to be achieved. Profitability is the important one factor that the company can run the business. Kasmir (2012) explains that profitability is the ratio to assess the ability of companies in the search for profit. If the company can not meet the purpose to be achieved the company can not grow (growth), going concern, and social responsibility (corporate social responsibility). Profitability is a measure for the performance of a company, the profitability of a company shows a company's ability to generate earnings for a certain period at a rate of sales, assets and certain capital stock. Profitability of a company can be assessed through a variety of ways depending on the income and assets or capital to be compared one with the other. A return on equity is a measure of income or of income available to owners of the company, on the capital they invested in the company.

Global economic conditions continue to advance at this time, could lead to a very tight competition. This will encourage managers of companies in increasing the productivity of production, marketing and corporate strategy. In addition, the company's management should also maximize the welfare of shareholders (shareholder). In fulfillment of that goal, then it is treated right decision from the company's manager betterinvestment decisions, financing decisions and dividend decisions (Margaretha and Ramadan, 2010).

Nowadays, Companies have an huge opportunity to gain high return and spending the market by AEC (Asecan Economic Community). The integration increasing the economic market and give an opportunity to gain profit. The conditions explained above, Indonesian firms still have a possibility to make more profit and have a good performance. A country with stable economic growth indicates the firm’s role of supporting the economy of the country. It also can be a sign that the Indonesian market is still profitable. However, This chance cannot courage companies to increased their profitability. According to Indonesian Stock Exchange (2016), profitability rate have not increased in period 2012-2016. It seems on NPM (Net Profit Margin) that Net Profit Margin get stagnant in 5 years for 2012-2016 periods.

Becoming higher on NPM, the company's performance will be more productive and will increase investor confidence to invest in the company. This ratio shows how much percentage of net profit earned from each sale. The greater this ratio, the better the company's ability to earn a high profit. The relationship between the net profit of the residual tax and net sales shows the ability of management to drive the company successfully enough to leave a certain margin as reasonable compensation for the owner who has provided his capital for a risk. The results of the calculations reflect net profit per rupiah of sales. The capital market investors need to know the company's ability to generate profits. By knowing this the investor can assess whether the company is profitable or not.

Companies need to increasing their performance if the companies aims to increasing their profit and income to enlarge their business. In its development, a company should have long term strategies in developing their business and winning global competition. To maintain a very competitive edge over global market, a company needs better strategy to support its knowledge about internal and external aspects. The important one is investing. To increasing their performance and profitability, companies should have to an effective investment decision. The important management strategy is to evaluate the capital expenditure. The same notion is expressed by Wild et. al (2005) that by evaluating current capital expenditure, investor/management can get information about 1) managerial effectiveness, 2) profitability, 3) profit forecast, and 4) planning and controlling

The purpose of capital expenditures is explicit; however, not all capital expenditures have favorable outcomes. For example, Titman et al. (2004) find a negative relationship between abnormal capital investment and stock returns. This relationship becomes stronger for firms that have greater investment discretion. To avoid capital investment inefficiency, it is crucial to understand the ex-ante state of the company before conducting capital investments. The position of a firm's main product is an essential foundation for the profitability of a firm and creates future value and capital investment as the strategic means to achieve that goal. Therefore, this paper focuses on the conditions of product market as a precursor of corporate capital expenditures.

From this background, this research ains to know the influence of capital expenditure towards Profitability. Capital expenditure is independent variables using 3 industries as sample. The researcher uses Telecommunication, Manufacturing, and Oil Companies because these companies have the biggest spending amount of Capital Expenditure Industries. Capital Expenditure influence will concern to profitability and the influence to profitability uses moderating variable of financial performance. Financial performance use Return on Assets (ROA) as moderating variables. Profitability is used as dependent variables as represented using Net Profit Margin (NPM).

Based on the background described, the researcher intends to do a research with a title: "**The Influence of Capital Expenditure towards Company's Profitability"**

1.2. Research Questions

Based on the background above, the research question are:

1. Does Capital Expenditure affect Company's Profitability of Telecommunication, Manufacturing and Oil companies listed in IDX 2012 until 2016?

1.3. Research Purposes

Based on the background of problem and the research questions above, this research aims:

1. To find the empirical evidence concerning the influence of Capital Expenditure on Profitability on Telecommunication Companies listed in Indonesian Stock Exchange (IDX) from 2012 until 2016.
2. To find the empirical evidence concerning the influence of Capital Expenditure on Profitability on Manufacturing Companies listed in Indonesian Stock Exchange (IDX) from 2012 until 2016.
3. To find the empirical evidence concerning the influence of Capital Expenditure on Profitability on Oil Companies listed in Indonesian Stock Exchange (IDX) from 2012 until 2016

1.4. Research Contribution

1. Theoretical Contribution

   This study aims to provide empirical evidence about the influence of Investment in Capital Expenditure towards Profitability on Telecommunication, Manufacturing and Oil Companies in Indonesian Stock Exchange (IDX) from 2012 to 2016. It will develop theory of Resource Based View Theory and Profitabily that references on management decisions about investing on CAPEX in the telecommunication, manufacturing and oil industries in Indonesia.
2. Practical Contribution

   This research can be a meaningful input for related parties or readers to enhance management analysis and decision especially on Resource Based View development and Profitabilit towards CAPEX investment decisions in telecommunication, manufacturing and oil industries.